

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**UNAUDITED**



## STATE OF COLORADO

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### **Independent Auditor's Report On Required Supplementary Information**

Members of the Legislative Audit Committee:

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole for the State of Colorado as of and for the year ended June 30, 1999, which are presented in the preceding section of this report. The year 2000 supplementary information on pages 241 and 242 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the State of Colorado will become year 2000 compliant, that the State of Colorado's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State of Colorado does business are or will become year 2000 compliant.

## A. YEAR 2000 PREPARATIONS

### Primary Government

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs may interpret the year 2000 as the year 1900. In addition, some programs may be unable to recognize the year 2000 as a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as, environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the state's direct control but also the systems of other entities with which the state transacts business. Some of the state's systems and equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of state government.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot guarantee that the state is or will be year 2000 ready, that the state's remediation efforts will be successful in whole or in part, or that parties with whom the state does business will be year 2000 ready.

In early 1997, the legislature directed the Office of State Planning and Budgeting (OSPB) and the Commission on Information Management (IMC) to assess and report on the cost of year 2000 readiness preparations. The IMC developed a process for assessing and monitoring year 2000 project progress. It has asked state agencies that are not higher education institutions to report on completion of stages for each critical system. Higher education institutions report similar information directly to the Joint Budget Committee of the legislature.

The June 30, 1999 IMC report estimated the year 2000 project cost at \$35.5 million excluding higher education projects and embedded systems costs. At June 30, 1999, the state had \$5,402,316 committed to the various projects through contracts with parties external to the state.

At any given time, work on the year 2000 issue with respect to each system deemed critical falls predominantly in one of the following stages:

- *Awareness stage* – Establishing a budget and project plan for dealing with the year 2000 issue.
- *Assessment stage* – Identifying the systems and components for which year 2000 work is needed.
- *Remediation stage* – Making changes to systems and equipment.
- *Validation/Testing stage* – Validating and testing changes that were made during the remediation stage.

Completion of any or all of the stages does not mean the state's systems are or will be year 2000 ready or compliant.

At June 30, 1999, the state identified 604 projects and systems in its inventory, and 449 were deemed critical. The following table shows for each stage the number and percentage of total critical systems where the state has completed work.

STAGE	NUMBER	PERCENT
Awareness	1	0.2%
Assessment	7	1.6%
Remediation	39	8.7%
Testing/Validation	402	89.5%
Totals	449	100.0%

The state does business with many external entities that may have year 2000 problems. The state makes no representation that these external entities are or will be year 2000 ready or compliant. However, no external entities have notified the state that any critical system will not be year 2000 compliant.

Readers can obtain additional information regarding the year 2000 issue related to nonhigher-education state agencies from the Year 2000 Project Office web site at <http://www.state.co.us/Y2K>.

### Component Units

The Colorado Water Resources and Power Development Authority has inventoried its internal systems, and it is in the remediation phase at December 31, 1998. The Authority receives a majority of its funding from the Environmental Protection Agency, State of Colorado, and Colorado local governments, all of which are responsible for remediating their electronic data processing systems. The Authority also relies on certain banking institutions' trust departments to process a significant portion of Authority receipts, disbursements, and investments. Such banking institutions are responsible for remediating their electronic data processing systems.

The Denver Metropolitan Major League Baseball Stadium District has no significant computer systems of its own, but it relies upon several external parties. Those parties include the District's lessee, the Colorado Department of Revenue, a trustee bank, and a certified public accounting firm. The parties have informed the District that they are in the remediation and validation stages, and they expect to be able to provide the services previously provided.

The University of Colorado Hospital Authority has created a Year 2000 Oversight Committee that reviews all Year 2000 activities. The hospital is in the process of completing implementation of its Year 2000 compliance plan and is working on its contingency plan. The plans include replacement of desktop computers, hiring an outside consultant to address medical equipment problems, obtaining backup emergency power units, and accessing an on-site water well to meet water needs. The hospital expects to expend between \$3.5 and \$4.0 million in remediating the Year 2000 problem.

The hospital administration expects its accounting and billing systems to function properly, but it has manual systems in place as a short-term back up of the automated systems. If the computerized systems fail to operate for extended periods (more than three to four weeks), the hospital could experience significant delays in billing and collections. The hospital participates in the Medicare Periodic Payments program, and therefore, it does not expect an interruption in Medicare payments. A line of credit is in place to mitigate any delay in the hospital's receipts; however, any prolonged interruption could adversely affect the hospital's ability to make timely payments on its financial obligations.

Despite the measures being taken, there is no assurance that the hospital's computer systems and equipment will operate properly prior to or after December 31, 1999. Improper operation of such systems, or of other systems not described above, could have an adverse impact upon the ability of the hospital to pay its debts as they become due.

The Colorado Travel and Tourism Authority has currently addressed the Year 2000 issues relating to its computer systems and other electronic equipment. The changes made include system upgrades and equipment replacements.

The Colorado Uninsurable Health Insurance Plan management has obtained a copy of the Year 2000 Project Milestones report developed by the Plan's third party administrator and is monitoring its progress.

Additional information as to the year 2000 issue related to component units can be obtained in the complete financial statements of the individual component units.